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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

George to leave Oregon

James C. George, investment manager for the Oregon Public Employees Retirement System for 25 years, will retire in March. He will remain a consultant to the Oregon Treasury and the Oregon Investment Council.

Birtcher Realty buys Am Cal

Birtcher Realty Advisors has acquired the assets of Am Cal Advisors for an undisclosed sum in a cash and notes deal.

Birtcher gained \$220 million in assets through Am Cal, said Stanley L. Iezman, president. James B. McKenna, president of Am Cal, now is executive vice president of Birtcher.

Funds hire managers

The \$9.3 billion State of Connecticut Trust Funds hired 12 emerging equity managers to split \$180 million.

JMC Capital, Martingale Asset Management, Oak Associates and Target Investors each will manage \$25 million. Each of the remaining eight will manage \$10 million. They are: Armstrong Shaw Associates; Brown Capital Management; Davis Hamilton Jackson & Associates; Greaves Capital Management; Investment Counselors; NCM Capital Management Group; Spare, Tengler, Kaplan & Bischof; and ValueQuest.

The \$303 million Robert A. Welch Foundation hired Daniel Breen & Co. to manage a \$40 million equity portfolio.

The \$460 million Southern California Rapid Transit District pension fund hired

Continued on page 43

Equity holdings protected Dayton Hudson collars volatility for 401(k) participants

By Barry B. Burr

MINNEAPOLIS — Unbeknownst to participants in its \$550 million 401(k) plan, Dayton Hudson Corp. has had in place since June a "collar" around the equity portfolio of its defined contribution plan to protect the portfolio's value through the end of this year.

While some pension executives — including Dayton Hudson — employ futures, options and other derivatives in wide-ranging ways to invest their defined benefit assets, the Minneapolis-based company's use of the collar, a sophisticated application of derivatives, for its 401(k) plan apparently is unique.

Wayne A. Wicker, Dayton Hudson manager-benefit investments,

believes his company is the first to use a collar for employee-directed investments of a 401(k) plan.

The collar is perhaps the ultimate overlay — overlaying the participants as well as the three firms actively managing the equity portfolio.

According to Mr. Wicker, the collar seeks to lock up a minimum of a 10% gain for the year on the \$65 million

equity portfolio for participants by protecting against a downside in the stock market, as measured by the Standard & Poor's 500 Stock Index. In turn, instead of paying a fee for the protection, Dayton Hudson agreed to give up any potential upside in the stock market above a 30% return for the year.

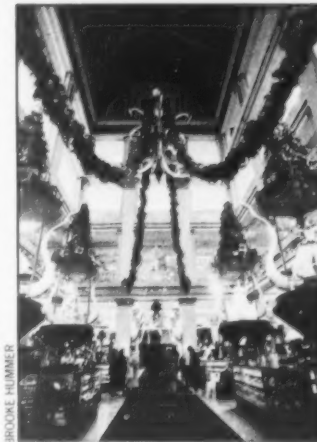
As C. Scott Fedewa, vice presi-

dent-global capital group, Bankers Trust Co., New York, who sold Dayton Hudson its first collar, explained: "You don't think the market is going up so you are willing to give up appreciation to pay for the call."

When the collar was first put in place in June, the active equity portfolio was up about 17% for the first six months of the year, against the S&P 500's 14.3%.

The collar, which expires Dec. 31, attempts to give participants in the equity portfolio a return for the year ranging between 10% and 30% — and importantly, a return that will be no lower or no higher. That is the concept although, as Mr. Wicker explained, the range of returns possible even with the collar is complicated by the performance of active equity management vs. the stock market.

"When you have active management, you add another dimension



Dayton Hudson, owner of the Marshall Field's chain, uses derivatives in its 401(k) plan.

on top of the collar," he said. "It complicates the collar."

The collar, although the most ambitious, isn't the first time Dayton Hudson has used derivatives. See Collar on page 40

A special report on the use of derivatives begins on page 17.

Maxwell's lost assets spur change

By Margaret Price and Anne Schwimmer

News that at least 400 million pounds (\$717 million) of pension assets is missing from the Maxwell empire has spurred greater efforts to protect British pension funds and could hamper efforts to sell Maxwell's British properties.

While investigations into the scandal continue in Britain, the possibility of a similar case arising in the United States is considered slight.

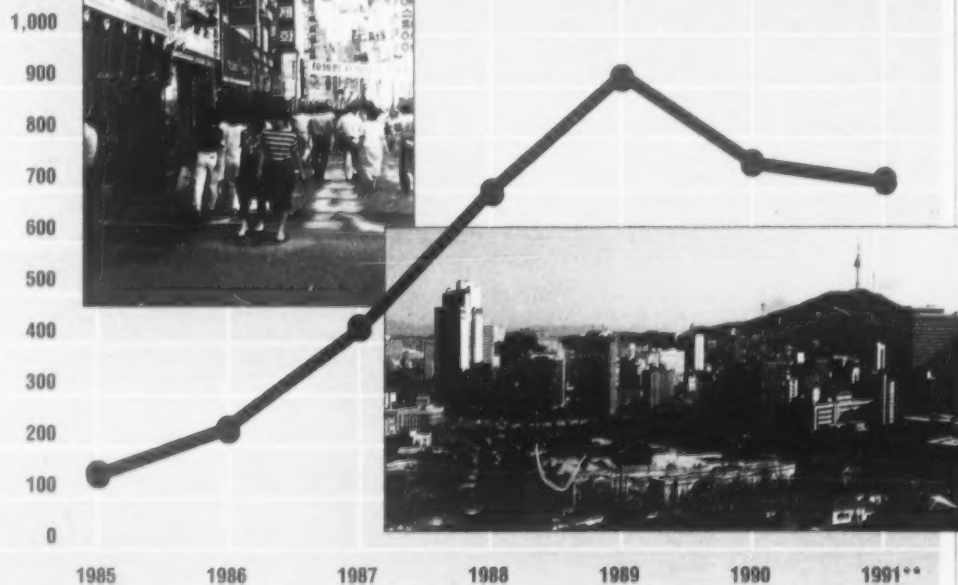
No pension assets of the U.S. subsidiaries of Maxwell's conglomerate are believed to be missing.

Nevertheless, the Pension Benefit Guaranty Corp. has asked the New York Daily News — a Maxwell property — for a detailed report on the status of its pension funds, noting four of them are among the 20 largest creditors to the company by virtue of their unfunded pension obligations.

In Britain, the Serious Fraud Office and the Investment Management Regulatory Organisation Ltd. are investigating reports that pension assets were lent directly to Maxwell affiliates as collateral to back the affiliates' bank loans. According to reports, the pension funds were pledged collateral for the assets used in the loans, but Robert Maxwell — the patriarch of the firm who died last month — allegedly sold the collateral later.

David Burgess, head of corporate See Maxwell on page 43

Korean stock market slips*



*Korea Composite Stock Price Index; Jan. 4, 1983=100 **As of August Source: Korea Stock Exchange, Seoul

CYNTHIA WATSON

Korea an open-and-shut case

Market's debut may leave funds in cold

By Margaret Price

U.S. pension funds and some other institutional investors will be prevented from participating

in next month's expected opening of the Korean stock market to direct foreign investments under current regulations.

Money managers disagree on whether the Korean market is attractive enough to move into quickly, but for pension funds the issue is thornier. According to John Bielski, compliance officer of Baring Securities Inc., New

York, foreign investors taking advantage of the Jan. 3 opening of the Korean market must have an identification number, obtained through a Korean broker from the Korean Securities and Exchange Commission.

While the investing rules are changing rapidly, as of now, only incorporated entities and individ-

See Korea on page 42

INSIDE



TED FUKA

ERISA's weak link

Pension Benefit Guaranty Corp. protection should be extended to benefits covered by retirement annuities, with contract issuers charged a risk-based premium to pay for the added cost. In Commentary, Page 14.

NEWS DIGEST



TOM REED

John Reinsberg's decision to leave GE Investments to become a partner at Lazard Freres could mean a tough transitional period for the investment management firm. Page 6.

Harvard University has chosen the path less traveled by tax-exempt funds, marking to market its alternative investment portfolio. Page 34.

SPECIAL REPORT: DERIVATIVES

Some pension fund investors are implementing rather sophisticated derivative-based strategies, but many have not. Advisers say education would end the skepticism preventing greater use of the instruments. Page 17.

FINANCING

CMS Energy affiliates' bond sales have received a warm reception from institutional investors because of their yield and ratings. Page 3.

Rule 144A, expected to spur the issuance of private securities, has left some investors underwhelmed. Page 29.

INTERNATIONAL

U.S. pension funds and other institutions might have to watch the opening of Korea's stock market to direct foreign investment from the sidelines. Page 1.

The Irish market is getting less attention from the country's pension funds. Page 37.

REAL ESTATE

The Maine State system filed a counterclaim against Travelers Insurance claiming Travelers violated its fiduciary duty in its handling of Separate Account R. Page 4.

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P&I not behind conference

NEW YORK — *Pensions & Investments* is not connected in any way with the "Annual Pensions & Investment Conference" sponsored by The Investment Management Institute and scheduled for later this week.

"P&I, the newspaper of corporate and institutional investing, is not sponsoring or supporting this meeting," said William T. Bisson Jr., publisher. In addition, neither Crain Communications Inc., which publishes P&I and more than 24 other publications, nor any other related entity is associated with the IMI meeting.

IMI is headed by Russell K. Mason. P&I co-sponsors conferences with International Business Forum.

Equitable halts GIC sales

Pioneer's exit is no surprise after years of downsizing

By Hillary Durgin

NEW YORK — The Equitable Life Assurance Society of the United States, a pioneer in the \$250 billion GIC business, is getting out.

The decision to discontinue writing new contracts is the final step in its efforts to shrink its GIC business and reduce liabilities, said Gordon G. Dinsmore, senior vice president-annuity products and services. Equitable will continue to service existing contracts, 90% of which mature before 1995, Mr. Dinsmore said.

In the past few years, Equitable has reduced the overall amount of contracts it issued to about \$500 million annually from a high of \$2 billion annually in the mid-1980s, Mr. Dinsmore said. Equitable has written virtually no contracts in the past 12 months. The retrenchment has reduced Equitable's GIC

obligations to \$8 billion as of Oct. 31, or one-fifth of its general account liabilities, down from a peak of \$15 billion in 1986.

The insurer's exit is historic given its role in creating the GIC and its dominance of the market in the 1970s. "It's a sad chapter that the company that developed the concept and made it universally attractive in the 1970s failed to adapt to the changes that occurred," said Murray L. Becker, president of Becker & Rooney, a GIC consultant in Teaneck, N.J.

Equitable has suffered GIC losses of about \$1 billion, substantially because of a product called a "long open" window contract. Under the design, Equitable would accept account deposits over periods of more than a year and guarantee rates of 12%. The insurer got hammered as interest rates fell in the mid-1980s.

Given Equitable's financial difficulties and gradual withdrawal

from the GIC arena, its decision to pull out completely was news, but not a surprise to industry insiders.

"They were a leader in writing the business, but what they discovered... was that they were bleeding themselves to death," said David Schupp, principal with Townsend & Schupp, a Hartford, Conn., insurance research firm. "That GIC business, thank goodness, didn't provide a death blow, but it certainly provided some serious injury to a franchise name company."

Equitable's departure from GICs is part of a strategy to focus on the money management business for institutional clients and to direct sales efforts and capital on the higher-margin life insurance and annuity business, Equitable officials said. Its decision comes as the mutual insurance company plans to convert to a publicly owned company in an effort to increase its capital base. ■

Baptists restructure \$2.4 billion in assets

By Fred Williams

DALLAS — The Annuity Board of the Southern Baptist Convention is restructuring 70% of its \$3.4 billion in employee benefit assets, reducing the use of guaranteed contracts and active equity management.

The \$1.4 billion stable value portion of the board's \$2 billion 403(b) plan gradually will be converted from guaranteed investment contracts, bank investment contracts and synthetic GICs to a market value fund containing fixed-income securities with maturities of one to five years.

Some \$1 billion in equities in all funds overseen by the board will be shifted from pure active management to an even split between active and passive.

John Jones, senior vice president and chief investment officer, said the board hired two fixed-income specialists — Payden & Rygel, Los Angeles, and Fidelity Investments, Boston — to manage traditional fixed-income portfolios as maturing GICs are rolled over. Mr. Jones said he expects about 16% of the stable value fund to be invested in fixed income in 1992. By 1996, he said, 85% to 90% of the stable value portion of the 403(b) will be invested in traditional fixed-income instruments. The remainder will be in guaranteed contracts.

Trustees also hired Northern Trust Co., Chicago; Goldman Sachs Asset Management, New York; and Independence Investment Associates, Boston, as passive equity managers.

Mr. Jones declined to specify whether any equity managers were terminated or the amounts to be given to the new managers.

Of the board's \$1 billion in equities, \$400 million is in the \$870 million defined benefit plan, \$223 million is in the 403(b) plan and the remainder is in multiple, small annuitized plans.

Declining yields on GICs and credit concerns in the insurance industry are partly responsible for

the fund's move from GICs, Mr. Jones said.

Recent yields on a three-year bullet GIC from an AAA rated insurance company stood around 6.2%, down from double-digit levels only months ago.

Fund executives first diversified the stable value fund by hiring Certus Financial Corp., San Francisco, to move into higher quality carriers and into BICs and synthetics.

"Now we are taking the next step to enhance the fund by changing from a book value to a market value fund by investing in short-duration bonds with low volatility," Mr. Jones said.

Certus will continue to manage the portfolio and monitor insurance company credit quality and claims-paying ability.

The Southern Baptist Convention is one of several employee benefit funds reducing their exposure to GICs and moving into bonds. Earlier this year, Halliburton Co., a stone's throw from the annuity board offices in downtown Dallas, disclosed it was reducing its GIC exposure in the company's \$1.1 billion stable value/GIC fund to less than 50%. (*Pensions & Investments*, Aug. 3).

Carl Paxton, manager of benefit fund investment at MAPCO Inc., Tulsa, Okla., said he is considering eliminating the \$10 million to \$12 million in GICs in the company's \$120 million defined benefit plan in favor of traditional fixed-income investments. He said no decision has been made.

William D. Templeton, director of insurance consulting at TPF&C, Atlanta, which assisted the Baptist board in its restructuring effort, said there is "clearly a major trend" toward the reduction of GICs by plan sponsors.

"My suspicion is that perhaps the vast majority, certainly well over half, of the money that otherwise would have gone to GICs now is going to different types of investments. The majority is going to synthetic GICs and some to market value fixed-income instruments," he said. ■



Robert Monks wants a paid shareholder committee to advise the Sears board.

Monks sets sights on Sears again

By Joel Chernoff

WASHINGTON — Activist shareholder Robert A.G. Monks, laying the groundwork for a second run for a seat on Sears, Roebuck and Co.'s board of directors, wants to create a committee of shareholder representatives to oversee Sears' board.

A second proposal that Mr. Monks' firm, Institutional Shareholder Partners Inc., Washington, helped draft would urge the company's board to consider spinning off its financial services units — Dean Witter Financial Services Group, Coldwell Banker Real Estate Group and Allstate Insurance Co.

If successful, his efforts could result in a radically restructured company. Mr. Monks, who lost a bitter campaign in May for a seat on the Sears board, says he will campaign again for a seat.

The proposal to form a three-person committee composed of shareholder representatives would create a shadow group for Sears' board of directors. Unlike

See Monks on page 41



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GE Investments
3003 Summer Street
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Maine files action in Travelers lawsuit

By Terry Williams

HARTFORD, Conn. — The \$2.2 billion Maine State Retirement System has filed a counterclaim against Travelers Insurance Co. alleging the insurer violated its fiduciary duties in the handling of its Separate Account R open-end commingled real estate fund.

The Maine retirement fund has been trying to redeem its \$18 million investment in Separate Account R since 1986, said Claude Perrier, executive director.

The counterclaim was filed in

response to a suit that Travelers filed in October in U.S. District Court in Hartford.

In that suit — Travelers Insurance Co. vs. Allied-Signal Inc. — Travelers petitioned the court to determine the proper method of liquidating and distributing assets to investors in the open-end commingled fund.

The Maine retirement system also was named as a defendant in that suit.

Separate Account R, as of year-end 1990, had \$252 million in assets.

The fund is made up of an equity component and a mortgage component, with the equity share being the larger.

In its counterclaim, the Maine system alleges Travelers gave preferential treatment to its own pension fund when it switched to a pro-rata distribution from a first-come, first-served distribution.

The insurer's pension plan had \$53 million invested in Separate Account R as of year-end 1990.

Other allegations in Maine's countersuit include:

- Travelers failed to liquidate and terminate the account on a timely basis so it could continue to collect management fees from participants.

- A transaction involving mortgages resulted in a loss to the account.

- Properties held in the account were not investment grade.

In response to Maine's action, Jody Beresin, a Travelers spokeswoman said: "The Travelers regrets the assertions of counterclaims in the litigation concerning its Separate Account R."

"Since the inception of the litigation in the summer of 1990 (when the Dallas Police and Fire Pension Fund filed suit over distribution of the fund), The Travelers has tried to arrive at a business solution for its real estate separate account."

"We believe that The Travelers management of the account will be found appropriate when evaluated on the merits."

"We have consistently managed the fund in keeping with our fiduciary duties."

"We do remain hopeful that a friendly solution can be reached," she said.

Ms. Beresin declined to identify how much the fund is facing in total withdrawal requests from its clients.

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CORRECTIONS & CLARIFICATIONS

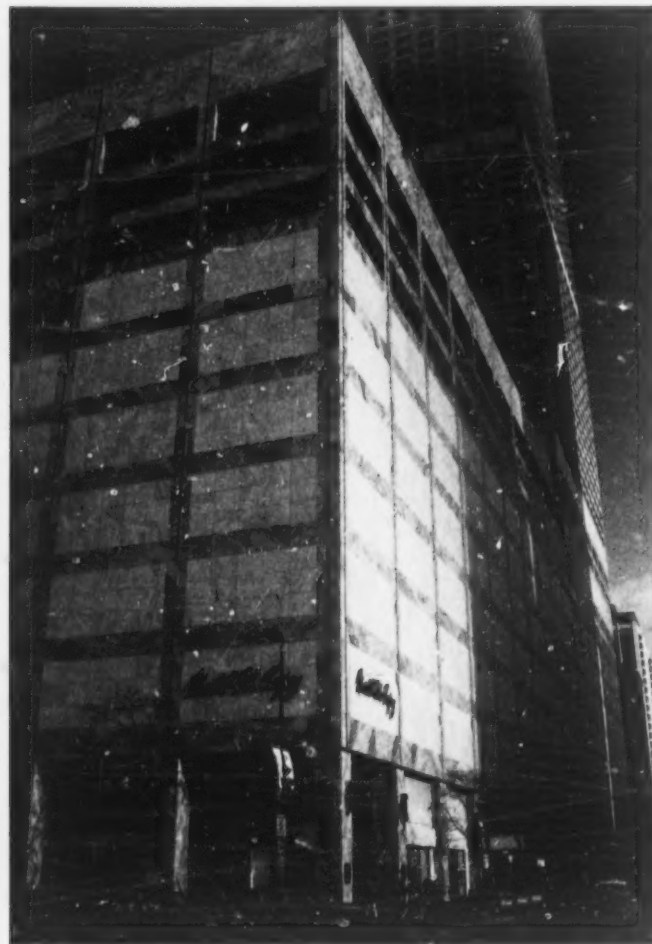
- **Thiokol Corp.** officials added **The Travelers** as an annuity option for its retirees. While Thiokol had considered and rejected adding a fourth option for active participants in its 401(k) plan, Travelers was not involved in that process, as was reported Oct. 14.

- **Ennis, Knupp & Associates** has 41 tax-exempt retainer clients. The profile in the Nov. 11 issue and a subsequent correction contained the wrong number.

- The size of the **Los Angeles College of Chiropractic's** retirement fund is \$1.5 million. The amount was misstated in the Nov. 11 issue.

REAL ESTATE

Urban and upscale, retail centers gain in popularity



Chicago's Water Tower Place is an example of a "deluxe" urban retail center, the latest hot property type.

■ Pension investors could find themselves puzzled about how to invest in one of the most coveted new forms of retail, the growing urban retail market.

Pension funds traditionally have turned their backs on urban retail markets, primarily because city shopping areas had been deteriorating because investing in them is difficult.

But a new market is developing in some of America's major cities — "deluxe" retail — that might outshine suburban-centered regional malls in return on investment, according to a new Salmon Brothers report.

The customer draw for revitalized urban centers is not just from U.S. shoppers, but from a growing class of middle- and upper-class shoppers from around the world. Up to 40% to 50% of the foot traffic in some U.S. urban stores is shoppers visiting from foreign countries.

"Deluxe" retailing refers to retailers' attempt — because of an increasingly competitive retailing environment — to build a greater market share in sales worldwide for brand labels.

Pension investors have favored suburban retail malls for investment partly because the malls are large, unified structures in which pension funds can invest a large chunk of cash. Urban retail centers, on the other hand, primarily are composed of individual stores, not under one roof.

However, Therese Byrne, a vice president with Salomon Brothers, said pension funds could invest in this new market by buying relatively new vertical malls, an example of which is Water Tower Place in Chicago.

— Steve Hemmerick

CORPORATE GOVERNANCE

Regan proposes proxy commentary

■ Trying to curtail "a contentious plague of the proxy," New York State Comptroller Edward V. Regan has developed his own solution to balance the needs of shareholders and corporate management.

Mr. Regan, often a maverick on corporate governance issues, believes Securities and Exchange Commission proposals to open communication among shareholders and ease access to proxy holders are inadequate for enhancing corporate accountability.

Instead, Mr. Regan would like the SEC to permit long-term, major shareholders to place comments in corporate proxy materials on management's ability to achieve long-term performance. Comments of up to 200 words could be included from shareholders with, for example, at least one-half of a percent of a company's voting stock for five years or more. Shareholders also could indicate how they would vote for nominated directors.

Originally submitted as a comment on the SEC's proposals, Mr. Regan now wants the SEC to pursue an independent rulemaking on his proposal.

While the proposal has won favorable comments from the business community, Martin Lipton, a partner in the law firm of Wachtell, Lipton, Rosen & Katz, New York, warned both the SEC and Mr. Regan's proposals are "piece-

meal" efforts.

Rather, a national council appointed by either the president or Congress is needed to come up with a broad set of recommendations on how to rebalance the equation between shareholders and management, Mr. Lipton told a meeting of the Competitiveness Policy Council, a group that will issue its own findings to the president by March 1.

— Joel Chernoff



Edward Regan thinks the SEC's proxy proposals don't enhance corporate accountability.

ACCOUNTING

FASB gives view on pre-payments

■ A proposal on accounting for loans, receivables or other debt securities subject to pre-payment — including investments such as mortgage loans, mortgage-derivative products and callable debt — has been issued by the Financial Accounting Standards Board.

The proposal, which has been released for public comment until Dec. 31, would specify the circumstances in which pre-payments would be required to be anticipated in applying the interest method of amortization and it would standardize how changes in anticipated pre-payments should be recognized.

If adopted, the proposal would be effective for transactions entered into in fiscal years beginning after Dec. 15, 1992.

The proposal would require anticipation of pre-payments whenever they were probable; the timing and amount can be estimated; and the impact on the effective yield would be significant. The proposal also would require the effective yield to be recalculated and the carrying amount of the investment adjusted if actual cash flows and estimates of future cash flows change as a result of pre-payments.

The adjustment would be required to be recognized currently in income.

— Marlene Givant Star

BENEFITS

Savings plans big with companies

■ All of the 50 U.S. industrial companies covered in a new report by The Wyatt Co. offer at least one cash or deferred compensation plan to their salaried employees.

Forty-four of the firms have thrift/savings or 401(k) plans, and nine of the companies offer profit-sharing plans with investment options similar to those of the thrift/savings plans.

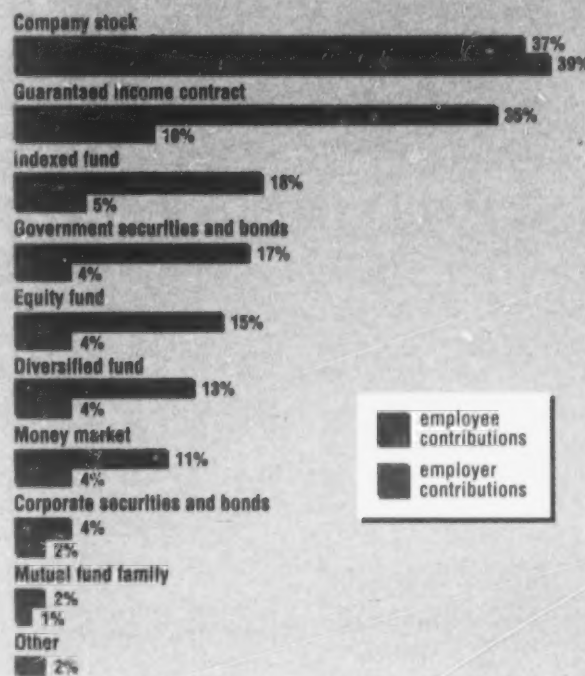
All but one of the companies with thrift/savings plans offer at least two investment options. The investment most frequently offered was company stock, followed by guaranteed income contracts and index funds.

The firm with only one investment option offers company stock as the investment vehicle, according to Wyatt's 1991 Top 50 report on pension, thrift/savings and profit-sharing plans.

Twenty-three of the firms offer employee stock ownership plans, with 13 companies having separate plans for ESOPs and 10 including ESOPs as part of thrift/savings or profit-sharing plans.

— Sabine Schramm

Thrift plan investment options by type of fund



INTERNATIONAL

SEC rule widens investors' reach

■ U.S. investors will have access to a wider range of opportunities to buy foreign stocks under a new Securities and Exchange Commission rule adopted in October.

Under SEC Rule 3a6, foreign banks and insurance companies will be able to sell their securities in the United States without registering as investment companies or seeking exemptions from SEC registration.

Under the current regulation, banks and insurance companies with more than 40% of their assets held as securities are required to register as investment companies.

— Marlene Givant Star

Indexes for valuing pension liabilities under FAS 87

